

A COMPARATIVE STUDY OF GOLD INVESTMENT ACCOUNT BETWEEN  
KUWAIT FINANCE HOUSE MALAYSIA BERHAD AND PUBLIC BANK  
BERHAD

By:

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Thesis submitted to

Othman Yeop Abdullah Graduate School of Business,

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## Abstract

This research focuses gold investment account which offered by Kuwait Finance House Malaysia Berhad and Public Bank Berhad. This research is to know the comparison of both banks in term of their transaction on gold investment account. Now days, the public realize the importance of gold. So, there are some banks which offered their product base on gold which known as gold investment account or gold saving account. So far, the one of the emerging popular types of investment in Malaysia today is gold investment because it have a value and known as precious metal. As before, many researchers just do a research base on Dinar gold which is first establish in Kelantan. But, there is a little research on this particular investment product. Since, gold is relates to *ribawi* items, so it is important to the investor to know how gold is transacted whether it is followed to Shariah guideline or not. The objectives of this research, which is qualitative research methods including content analysis and interviews were used. The study utilized personal interviews with scholars, bank managers and studying books, journals, magazines, newspaper as well as the empirical analysis from the available evidence such as documents published by Fatwa Committee of the National Council for Islamic Religious Affairs Malaysia. The study found that from both banks KFHMB and PBB, there just a few differences based on their transaction. The appearance of subject matter (physical gold) in such contract and way of transaction by on the spot is a main important part to ensure that transaction is really Shariah manner.

Keyword: Gold, Gold Investment Account, Public Bank Berhad, Kuwait Finance House Malaysia Berhad

## Abstrak

Kertas penyelidikan ini memfokuskan kepada akaun pelaburan emas antara bank Kuwait Finance House Malaysia Berhad dan Public Bank Berhad. Penyelidikan ini bertujuan untuk mengetahui perbandingan antara kedua buah bank tersebut dari segi transaksi emas yang dijalankan. Hari ini, masyarakat telah sedar akan kepentingan emas. Maka telah wujud berbagai bank yang menawarkan produk berasaskan akaun pelaburan emas kerana pelaburan emas kian mendapat populariti di Malaysia berikutan harga emas yang tinggi dan merupakan aset nilai yang unggul. Sebelum ini, kebanyakan pengkaji hanya mengkaji berkaitan dinar emas yang mana dinar emas adalah yang pertama ditubuhkan di negeri Kelantan. Walaubagaimana pun, hanya sedikit sahaja kajian yang dijalankan ke atas produk pelaburan emas ini. Di sebabkan emas adalah tergolong di dalam salah satu barangan ribawi, maka ia sangat penting bagi pelabur untuk mengetahui status transaksi pelaburan emas sama ada ianya mengikut Syariah atau tidak. Kertas penyelidikan ini adalah berdasarkan kaedah kualitatif yang menggunakan kaedah kandungan dan kaedah temu bual. Kaedah temu bual di jalankan kepada penasihat Syariah dan pegawai bank. Dapatan kajian juga adalah di ambil dari pelbagai sumber seperti buku, surat khabar, jurnal dan sebagainya. Bagi analisis dokumen, penyelidik menggunakan Syariah parameter dari Majlis Fatwa Kebangsaan Malaysia berikutan prinsip-prinsip dan hal yang membabitkan transaksi emas. Dapatan kajian mendapati bahawa hanya terdapat sedikit perbezaan di antara dua buah bank tersebut. Emas fizikal merupakan elemen yang sangat penting semasa transaksi emas berlaku kerana ia merupakan syarat penting di dalam kontrak. Penyerahan secara lani juga amat penting bagi memastikan transaksi emas mengikut piawaian Syariah.

Kata kunci: Emas, Akaun Pelaburan Emas, Public Bank Berhad, Kuwait Finance House  
Malaysia Berhad

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## TABLE OF CONTENT

TITLE.....	i
PERMISSION TO USE .....	ii
ABSTRACT .....	iii
ABSTRAK .....	iv-v
ACKNOWLEDGEMENT .....	vi-vii
TABLE OF CONTENT .....	viii-x
LIST OF TABLES .....	xi
LIST OF FIGURE .....	xi
LIST OF ABBREVIATIONS .....	xii
<b>CHAPTER ONE</b> .....	1
1.0 Introduction .....	1
1.1 Background of Study .....	1
1.1.1 Background of Kuwait Finance House Malaysia Berhad.....	1
1.1.2 Background of Public Bank Berhad.....	2
1.1.3 Introduction of gold.....	4
1.2 Problem statement .....	5
1.3 Research question .....	7
1.4 Research Objectives .....	7
1.5 Significance of the Study .....	8
1.6 Scope and limitation of study .....	9
1.7 Definition of Key Terms.....	10
1.7 Organization of the Study.....	10



<b>CHAPTER TWO</b>	11
2.1 Introduction	11
2.2 The importance and needs of gold by public	12
2.3 Investment of gold	14
2.4 Gold from Shariah perspective	16
2.5 Gold investment account	22
<b>CHAPTER THREE</b>	28
3.1 Introduction	28
3.2 Research Design	29
3.3 Population and sampling design	30
3.4 Method of analysis	30
3.4.1 Library research	31
3.4.2 Field research	32
3.4.3 Document analysis	35
3.5 Inductive analysis method	36
3.5.1 Data reduction	37
3.5.2 Data display	40
3.5.3 Drawing conclusion and verification	41
3.6 Deductive method	41
3.7 Comparative method	41
3.8 Conclusion	42
<b>CHAPTER FOUR</b>	43
4.1 Introduction	43
4.2 Islamic views on gold investment	43

4.2.1 Al-Quran and Hadith .....	43
4.2.2 Ijma' Ulama .....	50
4.3 Shariah principle on gold investment account.....	59
4.4 Gold saving account/Gold account-I of KFHMB .....	60
4.5 Gold investment account of Public Bank Berhad .....	63
4.6 The comparison of gold investment account by KFHMB and PBB .....	65
4.7 Advantage of gold investment account .....	70
4.8 Issues of gold investment account .....	73
4.9 Conclusion.....	78
<b>CHAPTER FIVE .....</b>	<b>79</b>
5.1 Introduction.....	79
5.2 Conclusion based on research questions.....	79
5.3 Recommendations and suggestions.....	81
5.4 Conclusion.....	84
<b>BIBLIOGRAPHY .....</b>	<b>86</b>

## **LIST OF TABLES**

Table 2.1: List of gold saving and investment account in Malaysia.....	26
Table 3.1: Simplified research methodology.....	29
Table 4.1: The comparison of gold investment account by KFHMB and PBB.....	65

## **LIST OF FIGURES**

Figure 2.1: World Gold Price for 10 years Period (May 2003-May 2013).....	15
Figure 4.1: Modus operandi of KFHMB Gold saving account.....	60
Figure 4.2: Modus operandi of Public Bank Berhad Gold investment account.....	63

## LIST OF ABBREVIATIONS

KFHMB	Kuwait Finance House Malaysia Berhad
PPB	Public Bank Berhad
GIA	Gold Investment Account
GSA-i	Gold Saving Account-i
SARF	Bai' al-Sarf
QARD	Qard al-Hasan

## **CHAPTER ONE**

### **1.0 INTRODUCTION**

#### **1.1 Background of Study**

Banks in Malaysia offer gold investment accounts to customers who will make deposits when prices of gold are low and withdraw at a profit when prices rise. The objective of the research is to determine the major differences between the nature of gold investment accounts operation in Islamic bank, Kuwait Finance House Malaysia Berhad (KFHMB) and the conventional bank, Public Bank Berhad to come up with the best options between their two products. From Islamic perspective, the perception of gold is very crucial in term of rules and regulations of Islamic finance. It is because; gold is a one of the six Ribawi items whereas it consists of element of Riba and it is strongly prohibited by Islamic law. So, it is important to know the details of both bank and how they operate the transaction of gold investment account. In fact, this study is also to know is there are any advantages on this product and what issues arise from both banks.

##### **1.1.1 Background of Kuwait Finance House Malaysia Berhad**

Kuwait Finance House Malaysia Berhad (KFHMB) is one of the Islamic banking in Malaysia. Kuwait Finance House Malaysia Berhad is known as the pioneer of Islamic compliance originates from Kuwait. Since the establishment, and to date, KFHMB become the largest and popular Islamic banking and financial institution. KFHMB offers a special product rather than another Islamic banking in this country such as, KFHMB

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# APPENDIX

## **Interview Protocol Form**

### **Faculty Interview Protocol**

Institutions: Kuwait Finance House, Penang

Interviewer (Title and Name): Nor Syafika Ridzuan

Interviewee 1: Norafiza Ani Abdullah (Personal banking manager)

Interviewee 2: Ahmad Suhaimi Bin Yahya (Regional Head Shariah , KFHMB, K.L), (telephone interview)

Date: 3 April 2014

Time: 3 pm

Location: Kuwait Finance House (Malaysia) Berhad, No. 25 Jalan Todak 6, Pusat Bandar Seberang Jaya 13700 Perai, Penang

Survey Section Used:

- ✓ A: Interview Background
- ✓ B: Assessment Products

Other Topics Discussed: Gold price and constraints

Documents Obtained: Gold saving account application form, pamphlets of Gold saving account and specimen signature card

Research questions:

- 1) What are Islamic views about gold investment?
- 2) What are the comparison of gold investment account between Kuwait Finance House and Public Bank Berhad?
- 3) What is the advantage and issues of gold investment account from both banks?

## Introduction

You have been selected to speak with us today because you have been identified as someone who has a great deal to share about the details transaction of gold investment account. My research project as a whole focuses on the transaction of gold investment account either it is following Shariah rules or not since the features of gold is specify relates to Ribawi items. Yet, my study also needs to know how does modus operandi of other bank in particular of gold investment account are really follow the Shariah rules as your bank.

*We have planned this interview to last no longer than one hour. During this time, we have several questions that we would like to cover. If time begins to run short, it may be necessary to interrupt you in order to push ahead and complete this line of questioning.*

## **A. Interviewee Background**

- 1) How long have you been?

About 5 years

- 2) Present position?

Personal banking manager

3. What is your highest degree and what is your field of study?

Degree of Business Administration in Marketing at UITM Shah Alam.

## B. Assessment products

1) What is gold saving/ investment account?

Gold savings account is a long term investment base on gold. Gold investment account allows the investors to buy and sell gold without the hassles associated with the transfer of actual physical gold.

2) What is the contract/Shariah concept use for this kind of products?

KFH use Bai' As-Sarf and Qardh Hassan

*Probes: What is Bai' as-sarf and qardh?*

*Bai' as-Sarf* refer to the exchange of one monetary form for another in the same or different form on a spot basis, where in this case it refers to the exchange of the money with gold. Under this contract, investor will buy the gold from KFH in gram at the selling price determined by KFH. Meanwhile, *Qardh* refers to benevolent 'loan' or interest-free 'loan' whereby KFH as the borrower is only required to return the commodity or principal borrowed. Under this contract, the gold bought by investor will be deposited into the gold account with KFH as the debtor (*Muqtaridh*) and the investor as the creditor (*Muqridh*).

3) What are the benefits of KFH Gold Account-i?

- Convenient and secure
- More options
- Ease of purchase/sale
- Affordable initial deposit

*Probes: What do you mean by ease of purchase sale?*

*Customer can purchase the gold in form of bar gold at time of transaction. If the customer wants to sell back the physical gold to the bank, the bank will repurchase the physical gold at KFH's quoted buying price at the time of purchase provided that the packaging and security seal of the physical gold remains intact, and the serial number and the barcode printed on the face of the packaging of the physical gold must match KFH's record.*

4) What are the risks when apply this product?

The KFH Gold Account-I is neither a protected product nor a profit bearing account. The capital gained from the account depends on fluctuations of gold prices. The returns on customer deposits in gold are uncertain and customer might be exposed to the risk on possibility of incurring losses. This product is not insured by PIDM.

*Probes: Why this product not insured by PIDM?*

*Because the price of gold is fluctuate. PIDM only will insure for static price.*

5) What are the pillars of gold investment account?

First, the gold or the subject matter must exist, wholly owned by the seller who can deliver to the purchaser within the uruf (custom) period. Next, the subject matter must be known its physical, weight and originality either by looking its physical form or through purchase order. Third, the value of the gold must be made known and agreed by both parties' seller and buyer during aqd (contract). Lastly, the contract must be executed based on mutual consent.

6) How to purchase the gold?

For individual, initial purchase of gold is 10gm in multiple of 1gm. For non-individual, initial purchase of gold is 50gm while for junior, initial purchase of gold is 5gm. Bank will provide the bar gold and it is depend to customer either to buy the gold for every month or by lump sum at initial.

*Probes: Who is eligible to open this account?*

*Male and female individual who have attained the age of 18 years old can open this account. Otherwise, there should be a Malaysian citizen and permanent resident or non-resident. Meanwhile for junior account, customer below 18 years old requires a guardian to open the account. It is also eligible to non individual such as associations, societies, companies or other business entities that KFH Malaysia find suitable or acceptable.*



7) Is it permissible to use jewellery to open the account?

No, bank will not accept any jewellery. It does not include gold jewellery because it is excluded from the illah ribawi.

8) What are the obstacles in implementation the gold investment account?

Bank need to build a trustworthy among customer because many of them still confuse either KFH is really Shariah or not. Another things, there may a problem if the gold price drop and customer do not understand about gold price. They are willing to withdraw gold early than expected. So, they do not see how much profit they should get is.

9) What are the issues arise?

Issues of gold price and Riba. However, Majlis Fatwa Kebangsaan Malaysia has stated a number of situation and the principles to make it gold valid.

10) Is bank having any security box to keep the gold?

Of course, bank has a security box to keep the gold and each of gold has a serial number. An extra gold will be keep in headquarter bank, Kuala Lumpur.

11) Is there any physical gold appeared in time of transaction?

Yes, the customer who wants to open gold account-i is given chance to look and check whether the gold is the real gold of 995.0 gold which is in form of wafer.

The customer also are given chance to make a choice either to keep the gold by themselves or give a trust to bank to keep that gold.

12) What are the conditions to make the gold as line to Shariah?

The transaction of gold must be done by on the spot and cannot be deferred. Gold is existed in time of transaction.

*Probes 1: How if the gold is missed or bank do not have the stock at time of transaction? The transaction without physical gold is valid or not?*

*Since gold and money is specifies as Ribawi items with the same illah, so there are additional conditions regarding to transaction of sale and purchase of gold:*

- *Taqabudh must be happen in both items which is price and gold, and it must be transact before the contracting parties spread from the contract.*
- *Gold trading must be carried on the spot and cannot be deffered.*

*Probes 2: What is taqabudh?*

*Taqabudh is a payment can be done through cash payment, payment through banker's cheque, payment by personal cheque, payment by debit card or transferring money from saving account or current account. Hence, the transaction must happen on the spot and cannot be deferred. The deferment of the price is not allowed to cover the whole debt purchase. The delivery of gold which delay over the three days after the contract of sale is not justified at all.*

13) Is bank charge any additional amount to keep the gold?

No. bank will not impose any additional charge to keep the gold.

14) Account holder need to pay zakat or not?

Yes, account holder must pay zakat by their own when enough haul. Bank cannot pay for them because bank has many other tasks to do.

15) What is your opinion about gold investment account among banks? (extra question)

So far, there just same which is bank should follow gold price as stated by BNM, but the method payment might be have some different amount. In KFHMB, we provide a real physical gold but I think another bank does not provide it.

----- End of Interview Session-----

## **Interview Protocol Form**

### **Faculty Interview Protocol**

Institutions: Public Bank (Jitra Branch)

Interviewee 1: Najmi Bin Ahmad (Customer Service Representative)

Interviewee 2: Sree Dewi A/P Chellappan (Senior Financial Executive)

Interviewer: Nor Syafika Ridzuan

Date: 10 April 2014

Time: 3 pm

Location: Public Bank Jitra Branch, 9 & 10 Kompleks Jitra, 06000 Jitra, Kedah

Survey Section Used:

- ✓ A: Interview Background
- ✓ B: Assessment Products

Other Topics Discussed: Gold price and constraints

Documents Obtained: Gold saving account application form, pamphlets of Gold saving account and specimen signature card

Research questions:

- 1) What are Islamic views about gold investment?
- 2) What are the comparison of gold investment account between Kuwait Finance House and Public Bank Berhad?
- 3) What is the advantage and issues of gold investment account from both banks?

## Introduction

You have been selected to speak with us today because you have been identified as someone who has a great deal to share about the details transaction of gold investment account. My research project as a whole focuses on the transaction of gold investment account either it is following Shariah rules or not since the features of gold is specify relates to Ribawi items. Yet, my study also needs to know how does modus operandi of other bank in particular of gold investment account are really follow the Shariah rules as your bank.

*We have planned this interview to last no longer than one hour. During this time, we have several questions that we would like to cover. If time begins to run short, it may be necessary to interrupt you in order to push ahead and complete this line of questioning.*

## **A. Interviewee 1 Background**

- 1) How long have you been?

About 22 years

- 2) Present position?

Customer Service Representative

- 3) What is your highest degree and what is your field of study?

Degree of Management in major management at UUM

## **Interviewee 2 Background**

1) How long have you been?

About 3 years

2) Present position?

Senior Financial Executive

3) What is your highest degree and what is your field of study?

Degree of Business Administration in Marketing at UKM.

## **B. Assessment products**

1) What is gold saving/ investment account?

Gold investment account is an account of long term investment which allows you to purchase or sell the purest available gold commodity in 99.99% fineness at daily prices quoted in Ringgit Malaysia (RM) per gram and all the purchase and sale transaction will be recorded in a passbook.

2) What is the contract/Shariah concept use for this kind of products?

Public bank is a conventional banking and it does not apply any Shariah concept.

*Probes1: How does Gold investment account work?*

*At first stage, customer investment amount is converted to gold holdings expressed in grams based on the bank's prevailing counter gold selling price and it will be recorded in a passbook.*

*Probes 2: How if customer want to sell the gold?*

*If customer wants to sell the gold, the gold will be converted to RM equivalent at the bank's prevailing counter gold buying price.*

3) What are the benefits of Gold investment account?

- Gold is the best possible hedge against inflation
- Able to earn potentially higher return from appreciation in gold price
- Convenience to purchase and sell the gold at any PBB branches or via online
- Easy to monitor because it is recorded in passbook
- Affordable initial purchase and subsequent investment

*Probes: What do you mean by ease of purchase sale?*

*PBB have created the transaction via online banking. So, customer can access at their fingertips whenever they want to purchase or sell the gold. It is available by surf to PBeBank.com at discounted price.*

4) What are the risks involves when apply this product?

The returns on GIA are subject to the international gold price fluctuations and USD/MYR foreign exchange movement. Capital loss may incur as a result of untimely disposal of gold holdings under depressed gold price sentiments. Otherwise, this product is not insured by PIDM.

*Probes: Why this product not insured by PIDM?*

*Because the returns on Gold investment account are subject to the gold fluctuation and USD MYR foreign exchange movements. PIDM only will insure for static price.*

5) What are the pillars of gold investment account?

Since GIA in Public bank is based on conventional counterpart, so there are no pillars as stated by Islam. But, the subject matter which is gold is only existed at selected branch. But, normally in time of transaction, the gold are not appeared perhaps it is only recorded in passbook as a prove of transaction.

6) How to purchase the gold?

As 2013, Public bank has mandate that the minimum quantity of initial gold purchase is 5 grams rather than before, the initial gold purchase is 10 grams. While the minimum gold balance that need to be maintained in GIA is 2 grams

*Probes 1: How much maximum amount that customer can invest?*

*It is actually depend on customer either to add their amount as they wish for every month or just invest at initially by lump sum.*

*Probes 2: Who is eligible to open Gold investment account?*

*It is open to any individuals (resident or non-resident) aged 18 years and above. Parent may open together with their children who are below the age of 18 years.*

*Probes 3: Is there are open to non-individual account such as associations?*

*No, GIA only available to individual.*

7) Is it permissible to use jewellery to open the account?

No, bank will not accept any jewellery. Bank only accepts cash and then converted as gold price

8) What are the obstacles in implementation the gold investment account?

So far, the fluctuation of gold price sometimes makes a customer fear to invest in GIA. Actually, customer needs to clearly understand about price gold because with the right step they will get much profit. Since 2013, many customers join in GIA because that year, the gold price rise up. But, unfortunately on 2014 the gold price are slightly down rather than year before.

9) What are the issues arise?

Some customer does not know either this kind of investment is Shariah compliance or not. So, Public bank is conventional and if customer really wants GIA which based in Shariah compliance, they might seek another bank that applies Shariah concept. But, there are no interest imposed in GIA. Customer will get their profit based on gold price at day they want to withdraw.

*Probes 1: Is there are any interest imposes to GIA?*

*GIA does not pay interest as it is not a deposit placement. Furthermore, bank keeps the gold with an authorized custodian bank.*

*Probes 2: Is GIA subject to withholding tax?*

*No, GIA is not subject to withholding tax as no interest is paid to the account.*

10) Is bank having any security box to keep the gold?

No, bank will not provide security box to customer. If customer wants to earn the gold, they can carry the gold but with their self risk. Banks will not responsible if the gold is loss. There are only selected branch that have security box with terms and condition.

11) Is there any physical gold appeared in time of transaction?

Normally, there are no physical gold at time of transaction. It is only recorded in passbook. But, if customer wants to earn the gold, there can carry it but it is only available at selected branch with terms and conditions.

12) Is there any service fee imposed on this account?

Yes, an annual service fee of RM 10 will be debited from the designated deposit account if the GIA account balance falls below 10 grams as at 31 December of each year.

13) Account holder need to pay zakat or not?

Yes, account holder must pay zakat by their own when enough haul.

14) What your opinion about gold investment account among banks? (extra question)

Each of bank which offered Gold saving account usually just same whereby the price of gold is based on world gold price and checked by Bank Negara Malaysia. Investor should know how to play with the gold price and they will get a huge profit if they invest more than 5 years and they alert with the appreciation of gold price"

----- End of Interview Session-----